Controlling Workers Comp Costs

WCF Safety & Loss Prevention

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Outline

- **Workers Compensation Evolution**
- **Workers Comp System**
- **Cost of Accidents**
- **Safety Programs & Injury Prevention**
- **Injury Claims Management**

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Video Clip

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Workers Compensation

- **Workers compensation insurance is a no fault system covering injuries & occupational diseases to employees which occur *by accident arising out of and in the course of employment.***

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Pre-Workers' Compensation?

- **PAST HISTORY: Pre 1900's**
- **Worker Recourse - Sue Employer**
- **Employer Defense -**
  - **Contributory Negligence**
  - **Fellow Employee Caused Accident**
  - **Assumption of Risk**

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Why Workers' Compensation?

- **Fair and fast remedy for injured workers**
- **Fair and "reasonable" limit to liability for employers ("exclusive remedy")**
- **Limit the need for litigation**
  - **Utah has one of the lowest litigation rates 2-3%**

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Failure to Obtain Coverage

- **Penalties -**
  - **greater of $1000 or three times the premium they would have paid.**
- **Injunctions**
- **Criminal Sanctions**
- **Loss of "Exclusive Remedy"**
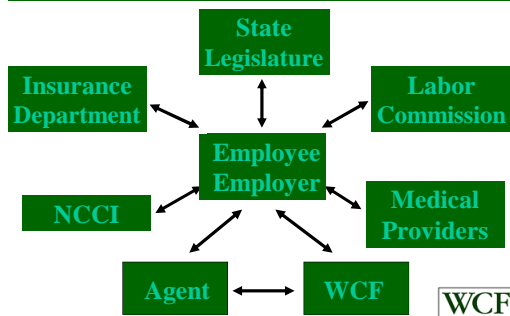- **Inability to Obtain Contracts**

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Workers' Compensation Benefits:

Compensation for work-related injuries and diseases, including -

- **Medical Costs**
- **Wage Replacement**
- **Permanent Impairment Benefits**
- **Rehabilitation Benefits**
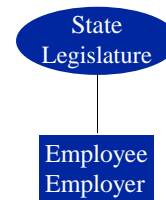- **Survivor Benefits**
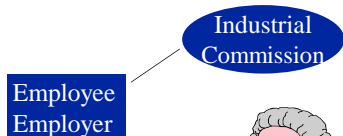
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Utah Workers Comp System

State Legislature — Insurance Department — Labor Commission — NCCI — Employee Employer — Medical Providers — Agent — WCF

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State Legislature

➜ **Established enabling legislation**
➜ **Create governing laws**

State Legislature — Employee Employer

Industrial Commission
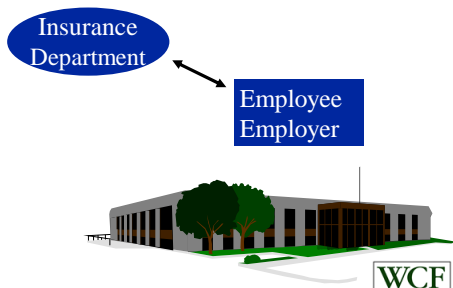
Industrial Commission — Employee Employer

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Industrial Commission

- **Adjudicate disputed employee injury cases**
- **Enforce coverage by employers**
- **Regulate self-insured employers**
- **Establish medical provider fee schedule**
- **Establish attorney fee schedule**

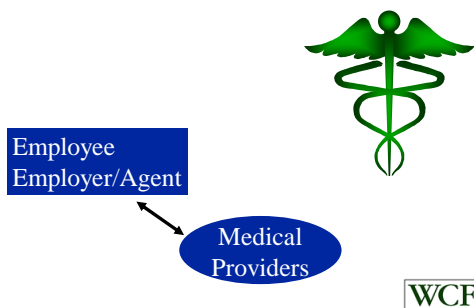**WCF**

Utah Insurance Department

Insurance Department

Employee Employer

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Utah Insurance Department
(System Regulator)

- **Approve premium rates & plans**
- **Approve insurance policy contracts**
- **Regulate insurance companies**
- **Establish industry underwriting rules and procedures**

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Medical Providers

Employee Employer/Agent

Medical Providers

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Medical Providers

- **Provide professional medical services to injured workers**
- **Function as "gatekeepers" in returning injured employees to work**
- **Render 2nd opinions and participate on medical panels**
- **Comply with Industrial Commission reporting requirements**

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National Council on Compensation Insurance


Employee Agent/Employer

NCCI

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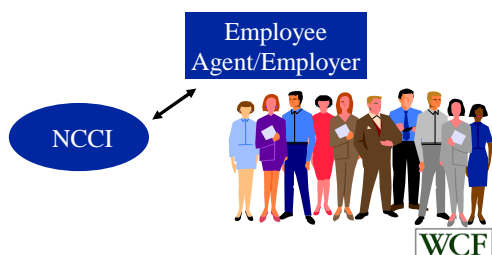
National Council on Compensation Insurance

- **Collect loss data to establish loss cost rates**
- **Calculate experience modification factors (E-mod)**
- **Provide rule-making data & recommendations**
- **Develop a job classification system**
- **Perform employer classification reviews**

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Workers Compensation Fund

Employee
Employer

Agent

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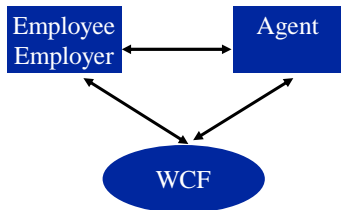
Workers Compensation Fund

- **Insured Utah employers since 1917**
- **Non-profit corporation owned by policyholders (as of 1988)**
- **Insurer of choice**
- **Insure 56 to 60% of Utah's business (~30,000 Utah Employers)**
- **Local Branch Services**
- **Multi-state Coverage**

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Workers Compensation Fund

- **Provide exclusive remedy for employers and employees**
- **Provide medical benefits and compensation to injured employees**
- **Work with medical providers and employers to successfully return employees to work**
- **Provide training and loss prevention support**
- **Prevent and prosecute fraud**

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Did you know?

Total annual cost of injuries to U.S. Businesses equaled $684.4 Billion in 2007!

**National Safety Council
Accident Facts (2006-2007)**

$

*Prior 2001 figure was $121 Billion

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Costs of Accidents

- **Direct Costs**
  – Costs that can be easily quantified

- **Indirect Costs - AKA Hidden Costs**
 – Costs that are not easily quantified

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Direct Costs:
- **Medical**
- **Workers Compensation**

Hidden Costs

- **Time lost from work**
- **Loss in earning power**
- **Lost time by fellow workers**
- **Lost time by supervision**
- **Cost of breaking in new person**
- **Damage to tools and equipment**
- **Equipment is out of service**
- **Spoiled work**
- **Spoilage - fire, water, chemical,**
- **Failure to fill orders**
- **Overhead cost**
- **Loss of Morale**
- **Legal Costs**

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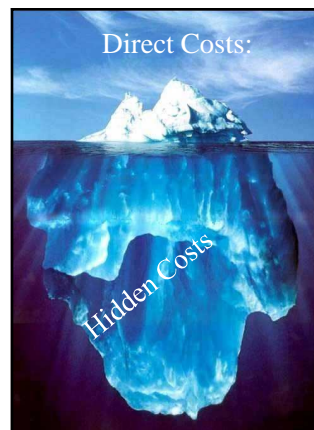
How much does an injury really cost?

Studies published in safety and health texts and professional journals have estimated that the indirect or **hidden costs** of a specific injury-producing accident will range **between 5 and 50 times the direct costs associated with that accident.**

Cost of Injuries Based on Medical Costs

Given the average *medical* cost of a "dust in the eye" injury is $200:

5 x 200 = **$1000**   50 x 200 = **$10,000**

Given that the average *medical* cost of carpal tunnel surgery is $20,000

5 x 20,000 = **$100,000** 50 x 20,000 = **$1 Million**

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Injury Costs (dollars)	Company Profit Margin				
	2%	4%	6%	8%	10%
$ 10,000	500,000	250,000	167,000	125,000	100,000
$ 20,000	1,000,000	500,000	333,000	250,000	200,000
$ 50,000	2,500,000	1,250,000	833,000	625,000	500,000
$ 75,000	3,750,000	1,875,000	1,250,000	938,000	750,000
$ 100,000	5,000,000	2,500,00	1,667,000	1,250,000	1,000,000
$ 500,000	25,000,000	12,500,000	8,333,000	6,250,000	5,000,000

Sales necessary to offset the cost of accidents and injuries at different profit margins.
Donald Bloswick, Ph.D., P.E., C.P.E.
University of Utah

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Cost of Injuries Based on Cost of Insurance

- You can calculate the amount of sales needed to pay for premiums:

  Cost of WC Insurance = $ Needed in Sales
    % Profit Margin

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EXAMPLE:

- **$400,000 premium cost**
- **10% profit margin**

$400,000 in premiums = **$4 Million in Sales**
       0.10

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2 Simple Steps to Cutting Workers Comp Costs:

- **Prevent Injuries**
- **Manage the Injuries that Occur**

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2 Simple Steps to Cutting Workers Comp Costs:

- Prevent Injuries
- Manage the Injuries that Occur

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How does preventing accidents save on Workers Comp costs?

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E-mod

- Calculated by NCCI
- Rating premium must be $7,000 in one year or $3,500 two consecutive years
- Statistical rating used to modify individual business rates as compared with industry average

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E-mod cont.

- Data collected to determine rate include:
  - Payroll
  - Claims experience (losses incurred)
  - Data collected has one year lag (3 year period)
    - Example: 2010 calculation uses 2006, 2007, 2008 data

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E-mod Calculation

$$\frac{\frac{Observed}{Expected} + \frac{Observed}{Expected} + \frac{Observed}{Expected}}{3} = \text{E-mod}$$

2010 E-mod evaluates [2006, 2007, 2008]

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E-mod Calculation Cont.

$$\frac{Observed}{Expected}$$

30% Medical Only Claims Costs
100% Lost Time Claims Costs

Expected Losses based upon Utah average of your class code

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Frequency & Severity

- **The NCCI looks at both frequency and severity.**

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How Accidents Affect the <u>Bottom Line</u>
Company A *Standard Rates*

Class Code	Description	Estimated Payroll	Rate per $100	Premium
2095	Meat Products Mfg.	$500,000	3.28	$16,400
	Experience Modification		X 1.15	$ 2,460
	Total Premium			**$18,860**

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How Accidents Affect the <u>Bottom Line</u>
Company B *Preferred Rates*

Class Code	Description	Estimated Payroll	Rate per $100	Premium
2095	Meat Products Mfg.	$500,000	2.60	$13,000
	Experience Modification		X .85	(1,950)
	Total Premium			**$11,050**

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Bottom Line Difference

Company A
Total Premium: **$18,860**

Company B
Total Premium: **$11,050**

Difference: $7,810

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Another Example (More Dramatic):
Company A Roofers *Non-Standard Rates*

Class Code	Description	Estimated Payroll	Rate per $100	Premium
5551	Roofers	$500,000	22.95	$114,750
	Experience Modification		X 1.15	$17,213
	Total Premium			**$131,963**

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How Accidents Affect the <u>Bottom Line</u>
Company B Roofers *Standard Rates*

Class Code	Description	Estimated Payroll	Rate per $100	Premium
5551	Roofers	$500,000	18.20	$91,000
	Experience Modification		X .85	(13,650)
	Total Premium			**$77,350**

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Bottom Line Difference

Company A
Total Premium: **$131,963**

Company B
Total Premium: **$77,350**

Difference: $54,613

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Cost of Injuries Based on Cost of Insurance for Company A:

If we assume 10% profit margin:

$$\frac{\$131,963}{0.10} = \$1,319,630 \text{ in Sales}$$

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Schedule Rating Adjustment

- **Another multiplier.**
- **Qualified WCF customers.**
- **25% discount or surcharge based on your company's safety programs and risk characteristics.**

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Schedule Rating Adjustment

- **Factors:**
  - **Existence of written company safety programs**
  - **Potential hazards/risks of your business**
  - **Drug free workplace policy**
  - **Employee management policies**
  - **Employee safety training**
  - **Implementation of recommendations**

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Preventing accidents is the best way to control workers compensation costs and other accident related costs.

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H.W. Heinrich:

- **~98% of all accidents are *Preventable:***
  - **~90% of those are from Unsafe Behaviors**
  - **Remainder are Unsafe Conditions**
- **Other ~2%....?**

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Wipe Out!

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Pure Luck!

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Accidents Can Be Prevented

- **Preventable Causes:**
  - Unsafe behaviors
  - Unsafe conditions
- **Focus on Preventable**
- **Be Prepared for Other**

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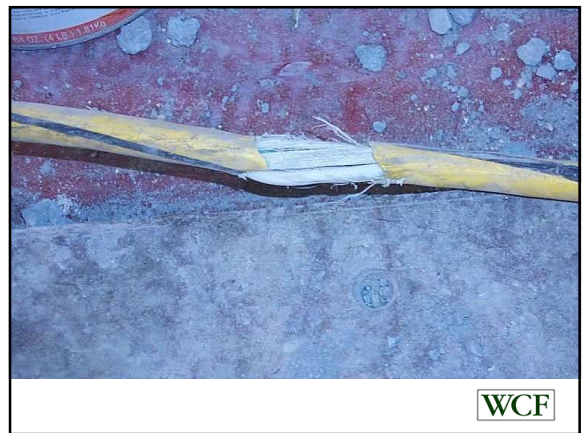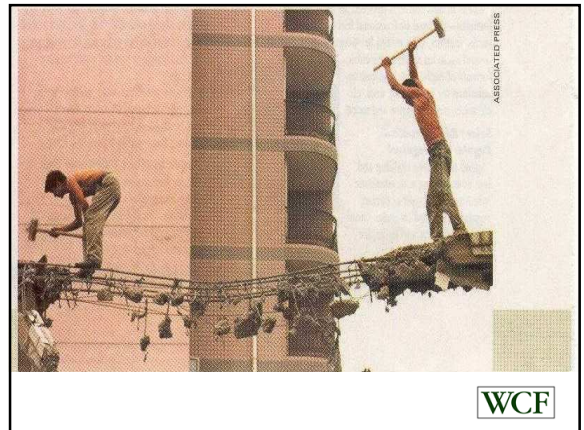**Acceptance of accidents is a mindset to overcome. How many accidents are acceptable to have in one year?**

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Ladder Safety

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How do you overcome the "unsafe mindset?"

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An Effective Safety Program will:

- Prevent/Decrease accidents
- Lower insurance costs
- Reduce cost of hiring & training personnel
- Decrease equipment damage & repair
- Increase productivity
- Improve employee morale

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WCF Safety & Loss Prevention Services

- Qualified, Board Certified Safety and Industrial Hygiene Professionals.
- Large account formal service plans.
- Assistance with injury prevention.
- Customer training seminars.
- On site training services for qualified policyholders.
- Assigned safety representative for all accounts over $10K

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WCF Safety & Loss Prevention Services

- Loss Analyses/Injury Claims Reviews
- Industrial hygiene consultation for qualified policyholders.
- On line safety resources at www.wcfgroup.com including safety topics for safety meetings/training.

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Components of an Effective Safety Program

1. Management Leadership & Commitment
2. Assignment of Responsibility (Accountability)
3. Hazard Identification & Control
4. Employee & Supervisor Training
5. Safety Incentives
6. Workplace Conditioning
7. Medical & Emergency Assistance

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Components of an Effective Safety Program

8. Return to Work Programs

9. Accident & Incident Investigation

10. Accident Reporting & Recordkeeping Activities

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Other Programs That Help Prevent Accidents

- **Drug free workplace**
  - **pre-employment testing**
  - **post accident testing**
  - **random testing**
  - **for cause testing**
- **Careful employee selection**
- **Discipline policy/programs used to enforce company safety policy**

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Two Simple Steps:

- **Prevent Accidents!**
- **Manage the injuries that occur!**

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Two Simple Steps:

- **Prevent Accidents!**
- **Manage the injuries that occur!**

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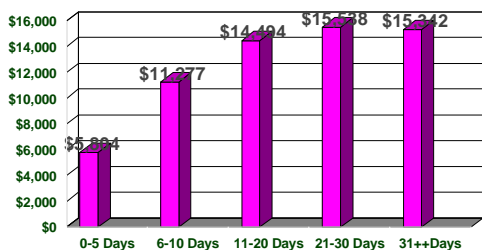
Watch Out!

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Procedure for Reporting Injuries

- **Report immediately - company policy**
- **Whom to report to**
- **How to report it**
- **What information is needed**
- **File claim with WCF ASAP**

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Reporting Delays Increase Claim Cost
Average Lost Time Claim Cost ($)

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Investigate & Document Every Accident

- **Look at Accident Site**
- **Determine Why it Happened**
- **Secure Evidence/Take Photographs**
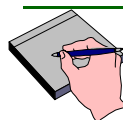- **Interview Witnesses**
- **Fact finding not fault finding**

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Reporting of Accidents to WCF:

- **WCF Online: initiate first report at www.wcfgroup.com**
- **Phone service for reporting accidents**
  - **First report of injury "hotline"** 288-8285
  - **Outside Salt Lake City** 1-800-561-8088
- **Mail or fax your employer first report of injury forms** (801) 288-8275
- **Keep employers reports on hand**
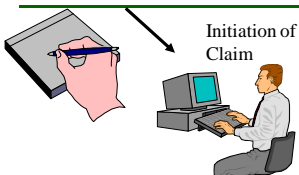 - **Employers injury report requests line** (288-8187)

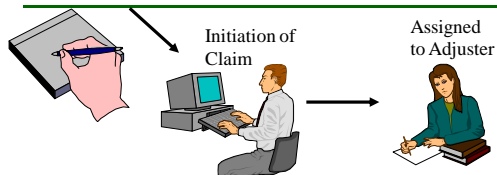**WCF**

First Report of Injury "E-1"

Employer or Physician
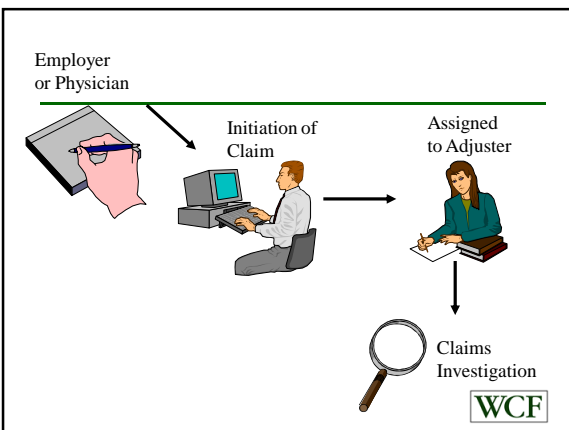

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Employer or Physician

Initiation of Claim

WCF

Employer or Physician

Initiation of Claim

Assigned to Adjuster

WCF

13

Employer
or Physician

Initiation of
Claim

Assigned
to Adjuster

Claims
Investigation

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Managed Care:

- **In-house bill review - 7.5 million savings**
- **Preferred provider organization - 4.2 million savings**
- **Prescription drug card**
- **Utilization review**
- **Medical Case Management**
  - **Nurses**
 - **Vocational Counselors**

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Medical Management of Injury

- **Designate a physician/facility from WCF PPO Network**
- **Instruct employees on how to report and where to get medical care**
- **Require post accident drug testing (written policy should be reviewed by legal counsel).**

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Medical Management of Injury

- **Establish working relationship with docs/clinic personnel**
- **Accompany Your Injured Employee to the Clinic**
- **Inform the Physician of the Job Requirements and any Accommodations that are Available**

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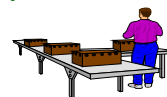
Medical Management of Injury

- **Invite the physician and medical personnel to your facility to take a tour and familiarize them with transitional/modified duty that is available.**

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Maintain Close Contact with Injured Employee

- **Keep in contact with injured worker**
- **Eliminate concerns about keeping job**
- **Helps decrease disability mentality**

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Maintain Close Contact with Injured Employee

- **Supervisor should contact w/in 24hrs.**

- **Periodic contact**

- **When mobile**
  - Have employee come to workplace
  - Discuss current job/possible accommodations

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Return to Work

- **Provide transitional/modified duty ASAP**

- **Helps manage medical costs (remember one large lost time injury could affect your bottom line for three years through your e-mod)**

- **Increases employee morale**

- **Increases communication**

- **Helps handle the difficult situations**

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For Transitional/Modified Duty to Work

- **Prompt reporting**
- **Accurate job descriptions**
- **Identified transitional work assignments**
- **Provide medical providers with options**
- **Develop written guidelines**
- **Uniform "standard of care"**

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Work With WCF Adjusters

- **Report to WCF immediately and contact the adjuster assigned. (www.wcfgroup.com)**

- **Analyze trends/offer suggestions**

- **Help set up transitional/modified duty**

- **Can check into the "red flags" & request fraud investigation if necessary (WCF Fraud Dept)**

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Red Flags

- **Poor Performance Evaluation**
- **Short Time on the Job, Temporary Worker, Impending Lay-off**
- **No Witnesses**
- **Delays in Reporting**
- **History of Accidents**

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Red Flags (continued)

- **Bizarre Symptoms**
- **Doctor Shopping**
- **Lack of Education or Other Transferable Skills**
- **Frequent Address Changes**

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Red Flags (continued)

- **Pre-existing Conditions**
- **Obesity**
- **Alcohol/Drug Dependency**
- **Injury is reported early on Monday morning or on day after employee's day off.**
- **Injury reported several days after an alleged injury occurred.**

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What More Can You Do?

- **Be in control of the process**
- **Hire the right people**
- **Hold employee orientation**
- **Monitor claims - check your loss runs and know what claims have been filed**

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2 Simple Steps to Cutting Workers Comp Costs:

- **Prevent Injuries**
- **Manage the Injuries that Occur**

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ON TARGET??

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Thank You!

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